

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

November/December 2007



### **Michigan State Government Debt** **By Gary S. Olson, Director**

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The Michigan Constitution of 1963 provides the State of Michigan with the ability to raise cash through the issuance of long-term debt. The cash is raised through the issuance of bonds on the capital markets by the State. The debt issued by the Michigan State government falls into two broad categories. General obligation bonds are debt instruments backed by the full faith and credit of the State. Nongeneral obligation bonds are debt instruments backed by dedicated restricted revenue sources.

General obligation bonds are issued pursuant to Sections 15 and 16 of Article IX of the State Constitution. Section 15 authorizes the State to borrow money for specific purposes only after a positive two-thirds vote of the members serving in the House of Representatives and the Senate and a positive vote of the electors in a general election. Section 16 authorizes the State to borrow funds for the purpose of making loans to school districts. These bonds also are backed by the full faith and credit of the State. Current examples in Michigan are bonds issued for environmental cleanup programs and public recreation bonds.

Nongeneral obligation bonds are issued pursuant to Sections 9 and 13 of Article IX of the State Constitution. These sections enable public bodies to issue bonds subject to constitutional restrictions and State law. These bonds are backed by dedicated revenue sources and are not guaranteed by the full faith and credit of the State. Current examples in Michigan are bonds issued by the State Building Authority and the Michigan Housing Development Authority.

This Senate Fiscal Agency (SFA) *State Notes* article provides a summary of the current level of debt issued by the Michigan State government. Included is a discussion of the current types of bonds outstanding and the recent history of the level of debt outstanding. The article also provides a comparison of the level of State debt outstanding in Michigan and in other states. Finally, the article reviews the State budget impact of debt service payments on certain outstanding State bonds.

### **Michigan Government Debt Outstanding**

The State of Michigan had \$20.54 billion of debt outstanding on September 30, 2006. This includes general obligation bonds totaling \$1.77 billion and nongeneral obligation bonds totaling \$18.77 billion. Table 1 provides a summary of the general obligation and nongeneral obligation bonds outstanding on September 30, 2006. In terms of general obligation debt outstanding, bonds issued for loans to school districts totaled \$759.9 million or 43.0% of the total general obligation debt outstanding. The remainder of the general obligation debt outstanding consisted of public recreation bonds - \$21.1 million; environmental protection bonds - \$482.6 million; Clean Michigan Initiative bonds - \$449.9 million; and Great Lakes Water Quality bonds - \$53.0 million. Michigan voters authorized the public recreation bonds and the environmental protection bonds in November 1988, the Clean Michigan Initiative bonds in November 1998, and the Great Lakes Water Quality bonds in November 2002.



**Table 1**

<b>Michigan State Government Debt Debt Outstanding as of September 30, 2006 (thousands of dollars)</b>	
<b>General Obligation Debt</b>	
School Loan .....	\$759,935
Public Recreation .....	21,090
Environmental Protection .....	482,633
Clean Michigan Initiative .....	449,966
Great Lakes Water Quality .....	53,000
<b>Total General Obligation Debt .....</b>	<b>\$1,766,624</b>
<b>Nongeneral Obligation Debt</b>	
<u>Michigan Department of Transportation</u>	
Tax Dedicated Bonds .....	\$1,836,104
Grant Anticipation Notes .....	84,000
<u>Department of Natural Resources</u>	
State Park Revenue Bonds .....	13,965
<u>Special Authorities-Revenue Bonds and Notes</u>	
Mackinac State Park .....	1,645
Michigan State Housing Development Authority .....	1,766,202
Hospital Finance Authority .....	4,857,896
Michigan Higher Education Facilities Authority .....	410,875
Michigan Higher Education Student Loan Authority .....	2,355,400
Michigan Municipal Bond Authority .....	3,456,474
State Building Authority .....	3,449,310
Michigan Public Education Facilities Authority .....	51,800
Michigan Tobacco Settlement Finance Authority .....	490,501
<b>Total Nongeneral Obligation Debt .....</b>	<b>\$18,774,172</b>
<b>Total State Government Debt .....</b>	<b>\$20,540,796</b>

**Source:** Annual Report of the Michigan State Treasurer

The nongeneral obligation debt outstanding of \$18.77 billion on September 30, 2006, consisted of debt issued by numerous State agencies and special authorities created by the State. The following information provides a summary of these nongeneral obligation bond issues.

**Michigan Department of Transportation Bonds:** Article IX, Section 9 of the State Constitution authorizes the issuance of bonds by the Department of Transportation to support transportation projects across the State. The debt service on these bonds is paid from dedicated transportation revenue. As of September 30, 2006, there were \$1.92 billion of bonds outstanding.

**Michigan State Park Revenue Bonds:** The Department of Natural Resources was granted the authority to issue revenue bonds for State parks by Public Act 149 of 1960. The debt service on these bonds is paid from State park-generated revenue. As of September 30, 2006, there were \$14.0 million of bonds outstanding.



**Mackinac State Park Revenue Bonds:** The Mackinac State Park Commission was granted the authority to issue revenue bonds by Public Act 58 of 1995. The debt service on these bonds is paid from revenue generated at the facilities operated by the Mackinac State Park Commission. As of September 30, 2006, there were \$1.6 million of bonds outstanding.

**Michigan State Housing Development Authority Bonds:** The Michigan State Housing Development Authority was created by Public Act 38 of 1969, to issue bonds and notes to finance housing for sale or rental to families with low to moderate incomes and to finance home improvements. The debt service on these bonds is paid from mortgage payments and rental charges from housing projects. As of September 30, 2006, there were \$1.77 billion bonds outstanding.

**Hospital Finance Authority Bonds:** Michigan's State Hospital Finance Authority was created by Public Act 38 of 1969, for the purpose of lending money to nonprofit, nonpublic hospitals and health care corporations. The authority uses the volume of borrowing available to receive lower interest rates that are in turn passed on to the health care corporations. The debt service on these bonds is paid from the loan repayments from hospitals. As of September 30, 2006, there were \$4.86 billion of bonds outstanding.

**Michigan Higher Education Facilities Authority Bonds:** The Michigan Higher Education Facilities Authority was created by Public Act 295 of 1969, for the purpose of assisting private nonprofit institutions of higher education in financing facilities on their campuses. The debt service on these bonds is paid from the loan repayments from colleges. As of September 30, 2006, there were \$410.8 million of bonds outstanding.

**Michigan Higher Education Student Loan Authority Bonds:** The Michigan Higher Education Student Loan Authority was created by Public Act 222 of 1975, for the purpose of making loans to qualified students attending higher educational institutions in the State. The debt service on these bonds is paid from the loan repayments from students once their education is completed. As of September 30, 2006, there were \$2.36 billion of bonds outstanding.

**Michigan Municipal Bond Authority Bonds:** The Michigan Municipal Bond Authority was created by Public Act 227 of 1985, to assist local units of government in reducing their financing costs for public improvements, deficit reductions, and various other municipal purposes. The authority pools the borrowing needs of various local units of government and issues bonds that are used to make loans to local units. The debt service on these bonds is paid from the loan repayments from local units of government. As of September 30, 2006, there were \$3.46 billion of bonds outstanding.

**State Building Authority Bonds:** The State Building Authority was created by Public Act 183 of 1964, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. The debt service on these bonds is paid by rental charges levied against the occupants of the buildings. As of September 30, 2006, there were \$3.45 billion of bonds outstanding.



**Michigan Public Education Facilities Authority Bonds:** The Michigan Public Education Facilities Authority was created by Executive Reorganization Order 2002-3, which transferred certain bonding functions of the Michigan Strategic Fund to the new authority. The Authority issues bonds for public school building projects. The debt service on these bonds is paid from the revenue loaned to school districts. As of September 30, 2006, there were \$51.8 million of bonds outstanding.

**Michigan Tobacco Settlement Finance Authority Bonds:** The Michigan Tobacco Settlement Finance Authority was created by Public Act 226 of 2005, for the purpose of making loans and grants to encourage economic development projects in Michigan. The debt service on these bonds is paid from revenue the State is receiving from the 1999 settlement between 46 states and the United States tobacco industry. As of September 30, 2006, there were \$490.5 million of bonds outstanding.

### **Historical Levels of Michigan State Government Debt**

The amount of debt held by the Michigan State government has grown considerably in recent years. Table 2 provides a summary of the amount of general obligation and nongeneral obligation State debt outstanding at the close of each fiscal year beginning in FY 1978-79. Total debt outstanding at the close of FY 1978-79 was \$2.23 billion. Over the next 27 fiscal years, the level of State debt outstanding increased to \$20.54 billion. During this time period, the growth in nongeneral obligation debt exceeded the growth in general obligation debt. In FY 1978-79, general obligation debt accounted for 21.6% of the total State debt outstanding. By FY 2005-06, general obligation debt accounted for only 8.6% of the total State debt outstanding.

In order to analyze the growth in State government debt in recent years, Figure A provides a graphical summary of the growth in State government debt, Michigan personal income, and State appropriations, as measured by State Spending from State Resources, over the period FY 1996-97 through FY 2005-06. Michigan personal income is the best measure available of the growth in the Michigan economy as a whole. Over this 10-fiscal year period, State government debt increased 91.0%, while Michigan personal income increased 37.1% and State Spending from State Resources appropriations increased by 28.5%. The growth in State government debt significantly exceeded the growth in the Michigan economy and State appropriations over this time period.



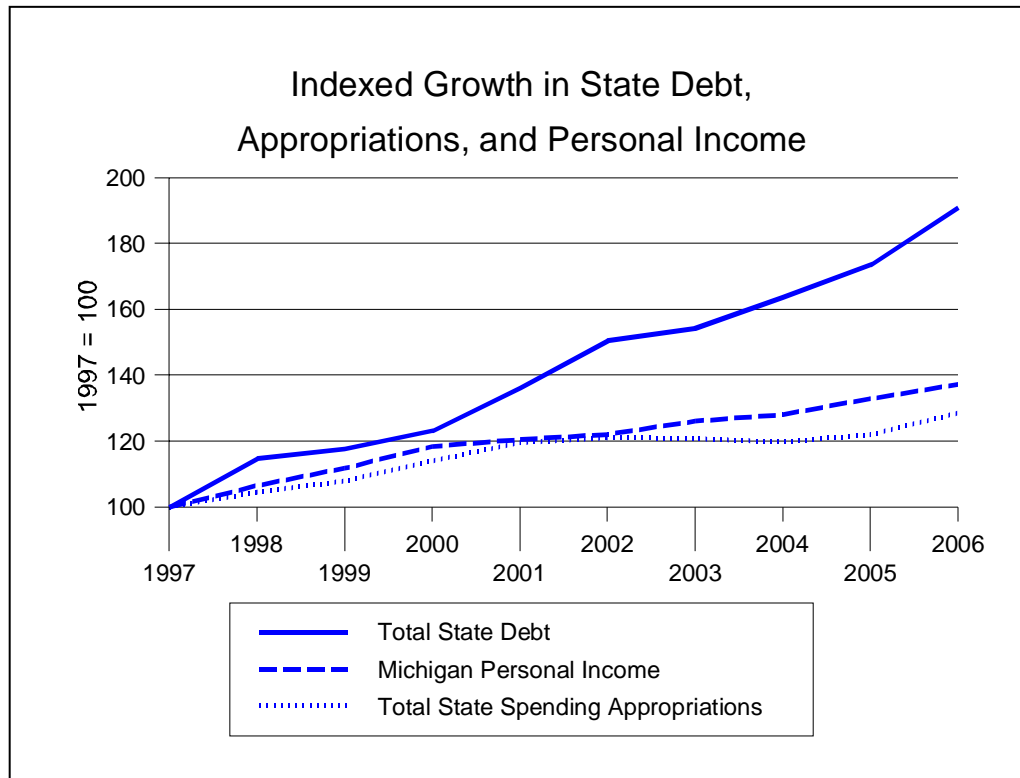
**Table 2**

<b>Michigan State Government Debt Outstanding September 30 of Each Year (dollars in thousands)</b>			
<b>Year</b>	<b>State Government Debt</b>		<b>Total State Debt</b>
	<b>General Obligation</b>	<b>Nongeneral Obligation</b>	
1979	\$482,500	\$1,749,940	\$2,232,440
1980	439,100	2,353,199	2,792,299
1981	409,600	2,692,335	3,101,935
1982	361,000	3,205,816	3,566,816
1983	309,300	4,059,541	4,368,841
1984	167,300	4,790,151	4,957,451
1985	241,700	4,887,416	5,129,116
1986	198,000	5,601,076	5,799,076
1987	157,700	5,542,242	5,699,942
1988	129,500	5,699,621	5,829,121
1989	106,400	5,777,405	5,883,805
1990	187,723	6,503,638	6,691,361
1991	162,133	7,073,109	7,235,242
1992	402,934	8,305,060	8,707,994
1993	420,813	8,090,423	8,511,236
1994	438,040	8,741,916	9,179,956
1995	706,006	9,192,007	9,898,013
1996	684,983	9,496,680	10,181,663
1997	655,184	10,098,992	10,754,176
1998	874,162	11,459,073	12,333,235
1999	839,377	11,800,972	12,640,349
2000	900,223	12,343,109	13,243,332
2001	998,315	13,664,767	14,663,082
2002	1,081,276	15,088,860	16,170,136
2003	1,371,038	15,198,474	16,569,512
2004	1,497,992	16,089,500	17,587,492
2005	1,617,022	17,054,974	18,671,996
2006	1,766,084	18,774,172	20,540,256

**Source:** Annual Reports of the State Treasurer



**Figure A**



**Source:** Senate Fiscal Agency calculations

### **State Government Debt in Michigan Compared with Other States**

The United States Bureau of the Census publishes annual data regarding the levels of debt outstanding in each state. The Bureau of Census data include both general obligation and nongeneral obligation state debt. In order to provide a meaningful comparison among states, the Bureau of Census data also are published on a per-capita basis.

Table 3 provides the rankings of state debt per capita for the fiscal years 1980, 1990, 2000, and 2005. Over this time period, Michigan moved from a low-ranking state in debt outstanding in FY 1980, ranking 36<sup>th</sup>, to an above-average state ranking in debt outstanding in FY 2005, ranking 25<sup>th</sup>. In spite of significant increases in the level of debt outstanding in Michigan from FY 2000 to FY 2005, Michigan's ranking compared with other states fell from 22<sup>nd</sup> to 25<sup>th</sup> over this time period.

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**Table 3**

<b>State Rankings of State Debt Per Capita</b>				
<b>States</b>	<b>FY 1980</b>	<b>FY 1990</b>	<b>FY 2000</b>	<b>FY 2005</b>
Alabama	39	31	37	44
Alaska	1	1	1	2
Arizona	50	44	49	45
Arkansas	45	41	43	40
California	32	33	31	19
Colorado	46	42	42	23
Connecticut	8	4	4	3
Delaware	4	2	7	7
Florida	38	39	40	42
Georgia	40	47	46	48
Hawaii	2	6	5	9
Idaho	33	34	25	38
Illinois	21	21	16	12
Indiana	49	40	36	30
Iowa	47	43	47	39
Kansas	43	50	48	36
Kentucky	15	17	23	33
Louisiana	17	7	29	26
Maine	19	16	11	13
Maryland	14	18	17	27
Massachusetts	10	5	2	1
<b>Michigan</b>	<b>36</b>	<b>36</b>	<b>22</b>	<b>25</b>
Minnesota	25	38	39	43
Mississippi	35	46	41	41
Missouri	42	30	27	20
Montana	27	15	13	11
Nebraska	48	37	44	47
Nevada	18	22	35	46
New Hampshire	11	8	6	6
New Jersey	13	11	10	8
New Mexico	22	24	20	18
New York	6	10	8	5
North Carolina	41	49	38	36
North Dakota	34	20	15	24
Ohio	29	29	33	34
Oklahoma	26	25	32	32
Oregon	3	12	24	17
Pennsylvania	23	35	34	29
Rhode Island	5	3	3	4
South Carolina	20	27	26	16
South Dakota	9	9	12	15
Tennessee	37	45	50	50
Texas	44	48	45	49
Utah	30	28	28	31
Vermont	7	13	9	10
Virginia	31	32	30	28
Washington	28	26	21	22
West Virginia	12	19	19	21
Wisconsin	24	23	18	14
Wyoming	16	14	14	37

**Source:** United States Bureau of the Census, State Government Finances



### Michigan State Budget Impact of Debt

The majority of the debt service payments on State debt outstanding do not show up directly in the State budget. Most of the repayment of State debt outstanding in Michigan is paid by educational institutions, local units of government, and hospitals for which the borrowing is undertaken. These repayments do not involve direct State appropriations.

The most direct impact on the State budget of debt service costs results from the repayment of general obligation bonds and bonds issued by the State Building Authority. These debt service payments are made primarily from General Fund/General Purpose appropriations and from a small amount of Federal and State Restricted funds. Table 4 provides a historical review of debt service appropriations on State Building Authority and general obligation bonds by fiscal year for the period FY 1994-95 through FY 2007-08. During FY 2007-08, debt service appropriations on bonds issued by the State Building Authority total \$226.8 million and debt service appropriations on general obligation bonds total \$120.0 million.

**Table 4**

<b>Debt Service Gross Appropriations (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>State Building Authority</b>	<b>General Obligation Bonds</b>	<b>Total</b>
1994-95	\$156.9	\$43.0	\$199.9
1995-96	166.8	40.1	206.9
1996-97	205.3	64.2	269.5
1997-98	241.7	64.2	305.9
1998-99	232.2	94.1	326.3
1999-00	252.6	94.1	346.7
2000-01	276.9	91.6	368.5
2001-02	265.6	97.0	362.6
2002-03	291.3	59.6	350.9
2003-04	242.7	56.3	299.0
2004-05	250.8	81.5	332.3
2005-06	253.7	89.0	342.7
2006-07	237.3	100.2	337.5
2007-08	226.8	120.0	346.8

**Source:** Senate Fiscal Agency